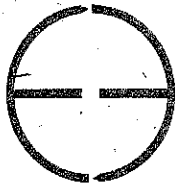


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CALIFORNIA COUNCIL FOR ENVIRONMENTAL AND ECONOMIC BALANCE COMMENTS TO THE CLIMATE ACTION TEAM ON THE DRAFT CLIMATE ACTION REPORT JANUARY 23, 2006

Good Afternoon, members of the Climate Action Team and members of the public. I am John Grattan, the Air Quality Project Manager and General Counsel of the California Council for Environmental and Economic Balance. I am here to present CCEEB's further comments on the Climate Actions Team's Draft Report to the Governor and the Legislature.

CCEEB is a coalition of California business, labor and public leaders who work together to advance strategies to achieve a sound economy and a healthy environment. We have long recognized that these goals are interdependent. We acknowledge the threat that global climate change presents to both our environment and our economic well being, and we support California's taking reasonable and cost effective steps to address the issue. Achieving the goals outlined will be a multigenerational issue and will necessarily require new technology to achieve, so must be approached in reasoned phases. Integral to this process is a full and transparent analysis of the probable consequences of the measures proposed and alternatives.

In this regard, CCEEB is pleased that the CAT Draft Report has refrained from recommending implementation of a California only Cap and Trade Program at this time, and has recommended an assessment of the impacts of such a step. We commend the CAT for their identification of the complex and crucial questions and issues that need to be investigated before moving forward on his approach. CCEEB historically has supported broadly based and flexible trading programs, but in this case there are many unanswered questions and concerns that need to be resolved before moving forward. As of now, CCEEB does not believe that a California only cap and trade program makes sense because of the potential for emission reductions due to leakage. For example, electricity production from higher emitting sources are likely to shift to nearby states, thereby negating the reductions achieved in California. These sorts of programs would work best on a national and international scale.

We also support the efforts of the CAT to initiate an economic analysis of the measures proposed. However, that task remains to be completed. To be frank, we do not understand how the CAT can make any recommendations in the absence of a complete economic analysis. It seems to us that decision makers need credible information on both the benefits and costs of the measures under consideration. To make recommendations which could have dramatic impact on the California economy and jobs without a detailed, transparent and peer-reviewed

economic evaluation of the recommended measures does not seem to be a rational approach to form public policy.

LACK OF A TRANSPARENT AND DETAILED ECONOMIC ANALYSIS

The lack of a complete economic analysis seriously undermines the utility of draft report. The 10 page Preliminary Economic Assessment released last week does not resolve this deficiency. In fact, it may be worse than no assessment at this point in time because its un-critiqued and unsupported assumptions and conclusions may come to have a life of their own. The release of a further document (purportedly documenting cost assumptions) almost immediately prior to this meeting further confuses the issue. It is impossible to have a legitimate discussion of the materiality, relevance and accuracy of this information on such short notice. Disseminating scattered bits of supposedly important information just before conducting a meeting to solicit public input call in to question whether this entire process is mere window dressing for public decisions already made in private.

In order for the CAT Report to have credibility, the impacts of its recommended strategies must be analyzed in an open, peer-reviewed process. The assumptions must be publicly set out and their plausibility subject to discussion and critique. Alternative scenarios should be run through the model to determine a reasonable range of possible outcomes. Issues such as the impact of specific recommendations on various sectors of the economy must be evaluated, as should other issues, such as the

pay back period for particular investment strategies and the corresponding availability of capital to accomplish the recommended measures.

Alternatives analyses should be conducted comparing the cost effectiveness of different approaches including both those measures recommended for implementation as well as alternative approaches not selected. The impact of the recommended strategies on global GHG concentrations should be estimated so that decision makers know what they would be getting in terms of potential improvements if the recommended measures are implemented. Finally, an analysis should be conducted on what the reductions of GHG concentrations resulting from implementation of the recommendations would mean in terms of impacting global climate change trends.

FOCUS FIRST ON MEASURES THAT YIELD THE GREATEST ENVIRONMENTAL BENEFITS AT THE LEAST COST OR RISK TO THE ECONOMY

One of CCEEB's basic beliefs is that approaches to achieve our environmental goals should be evaluated, selected and implemented with great consideration given to the relative cost-effectiveness of the measures available to achieve the intended goal. We want investments made to improve environmental quality (or to avoid environmental degradation) to result in the highest return of decreased pollution for every dollar invested. GHG emissions are by their very nature a global problem. While California does produce a significant share of the nation's and the world's inventory of GHG's, California's emission sources by and

large burn cleaner fuel and run at a higher level of efficiency than elsewhere.

Therefore, it is extremely likely that resources invested to reduce GHG emissions would result in more emissions reduced per dollar spent if it were expended in modernizing and making more energy efficient less evolved technologies in other parts of the nation and world. To put it bluntly, it may not be smart to spend lots of money now to reduce GHG emissions in California. There are better uses for the money elsewhere where it can do more good. Therefore, if any mitigation measures are to be applied in CA, they should be evaluated and our focus should be on measures that yield the greatest benefits at the least cost or risk to the economy.

MORE EMPHASIS ON RESEARCH AND DEVELOPMENT AND TECHNOLOGY EXPORT

One area where more resources could add value is research and development. California has led the way in the development and export of alternative energy and conservation technologies. This enviable record and existing State programs to stimulate export should be a starting point for a major role for California to constructively assist in reducing GHG emissions worldwide. The truth of the matter is that new technologies must be developed for us to inexpensively capture and store carbon. Existing technology is insufficient for the task at hand.

The California electorate recently took action aimed to put California front and center in efforts associated with stem cell research. The Final CAT

Report should emphasize the opportunity for the State to do the same in terms of research and development of the technologies needed for the world to successfully constrain GHG emissions, while providing for economic growth and opportunity. Let's invest in our areas of strength where the resources we expend can really make a difference.

As discussed previously, CCEEB recognizes the absolute need for research and development, as well as the benefits of technology export and therefore supports the concept of public funding of those endeavors. CCEEB and its membership are willing to explore various means of funding a robust R&D program for technologies deemed promising to reduce GHG's as well as adaptive measures.

MORE EMPHASIS ON VOLUNTARY MEASURES

The Draft CAT Report does not sufficiently emphasize the opportunity to identify and incent voluntary measures which have the potential to cost effectively reduce GHG emissions in the near term. CCEEB recommends that before mandatory steps are required, voluntary approaches should be encouraged. In this regard, we agree with the draft Report's recommendation that early action to reduce GHG's be protected and given credit, and not result in later penalizing the innovators and early adopters by reducing their baselines.

MANDATORY REPORTING OF EMISSIONS

Some of CCEEB's members already report Greenhouse Gas emissions through the California Climate Registry. Others would agree to such

reporting, as long as the process reflects the broadest practicable inventory (subject to certain de-minimis exemptions), and that the funding for implementing the program was done on an equitable basis. Other members believe that a national system of reporting is the only rational basis on which to proceed. All of our membership agrees that if mandatory reporting is to be instituted, an accurate accounting for the emissions of the transportation sector must be developed. Our members believe the data should be collected at the state level to ensure a uniform reporting system subject to the protections of the State Administrative Procedures Act. As discussed previously, early, voluntary emissions reductions must be credited and protected in a way that can be integrated in regional, national and international systems.

OTHER ISSUES

Accountability

Every major program government undertakes should provide decision makers with information on progress. It is important that the State of California, whatever strategies it selects, devise appropriate metrics or performance standards to define on an ongoing basis the impact that each these strategies are having on GHG concentrations and on the sectors of the California economy. We suggest an annual report to the Governor and the Legislature.

Coordination

California's approach to combat global warming should not be the result of piecemeal approaches by individual agencies. Responsibility for assessing the efficacy and impact of future measures should be centralized, and the opportunity for full and fair public input to that assessment should be instituted. CCEEB believes this can be accomplished within California State governments existing structure without the creation of a new bureaucracy.

CONCLUSION

I appreciate the opportunity to comment on behalf of CCEEB. In closing I would like to acknowledge the hours of work and great effort put forth by the members of the CAT in their development of this draft report. I also want to reiterate the need for (1) a complete, detailed, transparent economic analysis, (2) a process that allows sufficient time to ensure meaningful participation by the stakeholders, (3) significantly higher emphasis on enhanced research and development, (4) greater emphasis on voluntary approaches to reduce GHG's rather than relatively cost ineffective California-based reductions (5) the development of an ongoing system for measuring progress as well as costs to sectors of the California economy. Global Climate Change is an issue of great concern. It is appropriate that California address this issue. It is essential that California get it right. CCEEB and its members look forward to being part of the process.